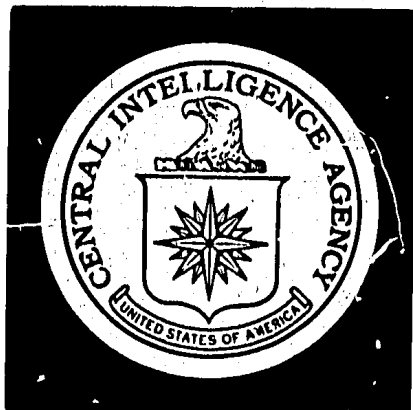


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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Bolivia: The Economy From Ovando To Torres

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
16 October 1970

INTELLIGENCE MEMORANDUM

Bolivia: The Economy From Ovando To Torres

Introduction

Bolivia's economy fared a little better during President Ovando's twelve-month administration than many observers had predicted. Moreover, Ovando's September agreement to compensate Gulf Oil for nationalizing its properties promised an early return to normal oil exports. The economic outlook, however, has been clouded again by General Juan Jose Torres' seizure of power on 7 October. Torres has acquired a reputation as a far leftist in recent years, but he says that he will honor the Gulf compensation agreement and has taken some initial actions as President that have tempered this image. This memorandum outlines recent economic developments insofar as the very scanty data permit and discusses the options open to the new government.

Course of Economic Policy under Ovando

1. After ousting the moderate Siles government in September 1969, General Ovando adopted a far leftist stance. His first moves as president were intended to negate his reputation as a rightist "gorilla" in the pay of the Bolivian Gulf Oil Company and to establish a civilian base for his government among students and labor. Twenty-one days after taking power, he seized Bolivian Gulf, by far the

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largest foreign investment in Bolivia, and threatened to nationalize other foreign-owned firms. In the financial panic that followed, he declared a bank holiday and established strict controls. A month later, he ordered COMIBOL, the state mining company, to rehire 200 troublemakers discharged during the Barrientos administration (1964-69) and promised broad wage increases. From October through December, Ovando took little new economic action, relying primarily on rhetoric in his efforts to build popular support.

2. In the early months of 1970 the Ovando government began a gradual shift to the right. Far leftists applauded the Gulf seizure but progressively withdrew their support, while civilian and military moderates exerted growing influence. Ovando retreated in public statements from his former revolutionary rhetoric; moreover, his attacks on the United States and on domestic businessmen became less frequent. He no longer talked of new nationalizations, and his government pushed its plans for fiscal and monetary austerity. By May the moderates within the military establishment were confident enough to force the resignation of the most radical cabinet member, Marcelo Quiroga Santa Cruz, the Minister of Energy and Hydrocarbons. The most recent indication of the government's moderation was the amicable agreement with Gulf.

Ovando's Settlement with Bolivian Gulf

3. President Ovando seized Bolivian Gulf's assets without a clear idea of the problems that would follow.* Petroleum was Bolivia's fastest growing sector, having accounted for 17% of exports in 1968. After futile attempts to sell oil to Communist countries, Rhodesia, and Latin American nations, the regime undertook serious negotiations with Bolivian Gulf's parent company. As in the nationalization itself, the leaders' political image was a very important factor in these early negotiations. For this reason, complicated arrangements involving forming a Spanish state-owned company to

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exploit the properties and compensate Gulf were proposed. However, as the government took a more moderate position, the need for such face-saving complexities lessened.

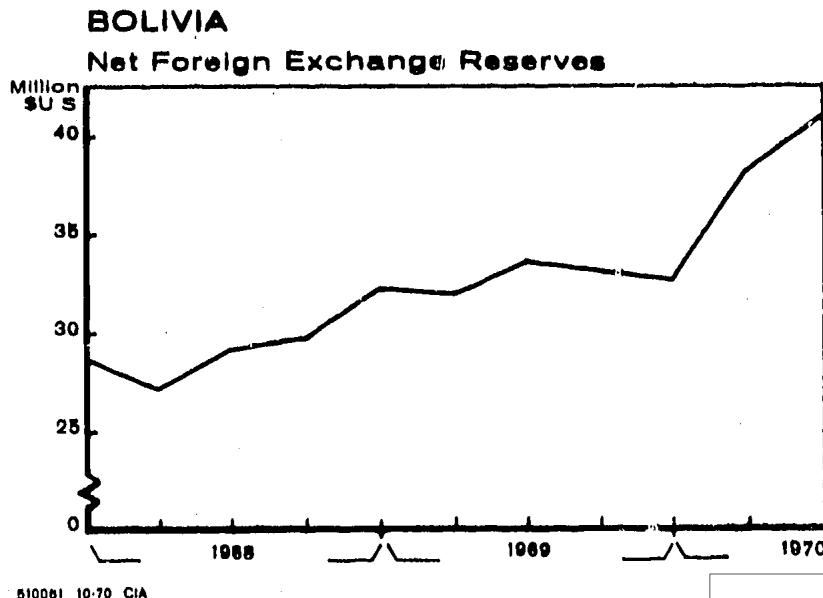
4. On 10 September 1970 the Ovando government announced a settlement with Gulf that seemed relatively favorable to Bolivia. Indemnification was set at \$78.7 million, plus \$14 million to \$15 million in repayment of debts that the government owed the company. Gulf accepted the offer even though the amount was \$22 million less than the book value of the nationalized properties as calculated by Geopetrol, a French company. Payments are to consist of 25% of the gross receipts of crude petroleum exports from the former Gulf concessions but are to cease in 20 years even if the entire indemnity has not been paid. Furthermore, Gulf will help finance an important gas pipeline to Argentina -- a \$46 million project suspended after nationalization. Even so, some leftist elements denounced the agreement.

Recent Economic Trends

5. The Gulf nationalization did not have the serious economic consequences that initially seemed likely -- mainly because world prices for tin, antimony, and most other Bolivian metals exports reached record levels. Also, a 20% increase in overland oil exports to Argentina partly offset the ending of pipeline shipments to the Chilean port of Arica. Despite a 75% reduction in petroleum deliveries, total export values in the fourth quarter of 1969 and the first quarter of 1970 were 50% and 35%, respectively, above the corresponding periods of the previous year. Recent data are unavailable, but sharply increased customs collections suggest that imports also have risen appreciably. Bolivia's foreign exchange position nevertheless weakened only slightly in late 1969 and improved markedly in the first half of 1970 (see the chart). Reserves benefited from the receipt of nearly \$5 million in Special Drawing Rights in February as well as high export earnings.

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6. Under the stimulus of increasing foreign exchange income, there probably was some growth in total output, but the gain was well below the average 5% rate of the 1960s. Petroleum production declined, although not as much as expected, and construction activity probably fell. The volume of tin output, however, rose 3% in the first half of 1970 compared with a year earlier, and production of antimony and tungsten (the next most important minerals) apparently was maintained or expanded. Manufacturing output probably rose, judging from the fact that electric power production in La Paz reached a new high in July 1970. Agricultural output apparently also grew somewhat.

7. The Ovando government generally followed cautious monetary policies, and budget performance was excellent by Bolivian standards. During the first eight months of 1970, central government revenues increased 24% over the comparable 1969 period, reflecting both rising foreign trade taxes and improved collection. Expenditures grew less rapidly, permitting a substantially reduced budget deficit. Overall credit expansion remained well

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within the limits set by the International Monetary Fund (IMF).^{*} By August, commercial bank deposits had recovered fully from their losses at the time of the Gulf nationalization, and commercial bank loans were up 15% from the previous year.

Possible Economic Developments Under Torres

8. President Torres has expressed an intention of gradually nationalizing foreign investment and may -- as did Ovando -- do so early in his administration to win popular support. There are reasons to doubt, however, that the new regime -- if it lasts long enough to have much impact -- will prove significantly more revolutionary than Ovando's. Most observers characterize Torres as intelligent and pragmatic, not strongly anti-American, a convert to the extreme left in recent years but not a Communist. He was ousted as chief of the armed forces in July 1970 because of pressure from the right rather than for policy differences with Ovando, and his takeover was provoked by the rightist coup that brought General Miranda to power for one day. Torres hopes that "four columns" -- the army, peasants, students, and labor -- will support his government. But the army and the peasants are basically conservative, and an army unit clashed with students shortly after Torres' takeover. Moreover, university leaders have refused to participate in the government, and some labor leaders such as Juan Lechin are too ambitious and opportunistic to be relied upon. Whatever personal aims Torres may have, his inability to win full support from the left and continuing pressures from the right seem likely to keep economic policy on a moderate course.

9. Although disavowal of the Gulf settlement was one of the demands presented by the Bolivian labor federation, Torres stated that the agreement must be observed to preserve the nation's honor and international credit standing. Considering

^{*} *The IMF standby agreement expired in mid-January, and the government's continuing compliance with the IMF ceilings is a measure of its restrictive monetary policy.*

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Torres' friendship with Ovando -- who considers the agreement one of his administration's principal accomplishments -- and the fact that the settlement seems about as favorable as any Gulf would likely accept, Torres would undoubtedly prefer to let it stand.

10. US-owned enterprises remaining in Bolivia are now few and relatively small, with a total book value of probably between \$25 million and \$50 million. The most important is the Matilde Mining Corporation, a zinc-producing subsidiary of Engelhard Mining and Chemicals and US Steel that has invested about \$12 million. Others are the principal sulfur producer, Sociedad Lipez Minera e Industrial (SOLMIN), which is owned by Deering-Millikan of New York, and Estanos Aluviales S.A. (ESTALSA), a tin-dredging operation owned largely by the Chase Manhattan Bank. W.R. Grace has investments of \$8 million to \$10 million, including a flour mill, cement plant, and part ownership in ESTALSA. South American Placers, Inc., a small US-owned gold-dredging firm that was recently attacked by guerrillas, might be a tempting target for expropriation, offering large political gains for little economic cost. Since foreign investment climate is already extremely unfavorable, one or more additional nationalizations could hardly make it worse, but disputes over compensation could raise problems with the United States.

11. The Torres government probably will attempt to maintain the conservative monetary and fiscal policies of Presidents Ovando, Siles, and Barrientos. General Torres already has publicly endorsed such policies, and his retention of the conservative Antonio Sanchez de Lozada as Minister of Finance -- is a sign that for now he means what he says. Although the radical faction in the government will undoubtedly push for increased employment and higher wages, the cabinet's moderate majority should be able to make its views dominant.

12. Torres' statements shortly after the coup suggesting that he planned to improve the people's welfare considerably reflected unrealistic hopes as well as the usual political rhetoric. Bolivia remains an impoverished, politically unstable country

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with poor prospects for economic development. The main mineral and fuel resources already have been nationalized, and a drastic land reform took place in the early 1950s. Commercial farms in the east could be a target for further land reform, but the essential fact is that the country has little wealth to redistribute.

Conclusions

13. Economic progress under Ovando was better than expected after the nationalization of Bolivian Gulf. Production and exports held up well because of high international mineral prices, and Bolivia's net foreign exchange position improved during the period. The Ovando government, which shifted its stance from the left to the moderate right during its year in power, continued sound monetary and fiscal policies and reached an agreement with Gulf on compensation for its Bolivian properties.

14. The new government of General Torres, despite its leftist image, may follow much the same economic policies as its predecessor. Although new nationalizations are probable -- the \$12 million Matilde mine being a likely target -- the government probably will follow conservative fiscal and monetary policies and is unlikely to make immediate changes in the Gulf agreement. Despite demagogic utterances, the Torres government can do little in the short run to improve the very poor living conditions of most Bolivians.

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